

Message Text

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EXDIS

E.O. 11652: GDS

TAGS: ENRG, PFOR, EC

SUBJECT: POVEDA SAYS VARGAS HAS BEEN ORDERED TO MAKE SETTLEMENT WITH
T-G, BUT VARGAS TAKES HARD LINE IN SUBSEQUENT NEGOTIATIONS

REF: STATE 176284

1. SUMMARY: I MET JULY 18 WITH ADMIRAL POVEDA
AND STRESSED URGENCY OF TEXACO-GULF SITUATION. POVEDA
REPLIED THAT VARGAS HAD BEEN ORDERED TO MAKE A SETTLEMENT
WITH THE COMPANIES. SHIELDS AND CRAWFORD OF TEXACO AND
O'BRIEN OF GULF MET WITH VARGAS JULY 19 TO LISTEN TO THE
MINISTER'S REACTIONS TO THE TEXACO-GULF INVESTMENT PLAN.
VARGAS REAFFIRMED DECISION 285 AND CLAIMED T-G PROFITS
WERE TOO HIGH. SHIELDS NONETHELESS WILLING TO CONTINUE
TALKS SINCE VARGAS INDICATED RATE OF RETURN WAS NEGOTIABLE.
O'BRIEN SAYS GULF ANXIOUS TO STAY IN ECUADOR IF PROPER
ECONOMIC ARRANGEMENTS CAN BE MADE. END SUMMARY:

2. IN VIEW OF FILING OF SUIT BY GULF AGAINST "RUTH"
AND ATTITUDE OF COMPANIES REPORTED REFTEL, I MET JULY 18
WITH ADMIRAL POVEDA AND STRESSED URGENCY OF TEXACO-GULF
SITUATION. I EMPHASIZED THAT GULF WAS FED UP WITH PIECE-
MEAL EXPRORIATION (DECREE 285, HIGH "DOMESTIC" CONSUMP-
TION, AND OVERRETENTION) AND INFORMED POVEDA THAT GULF
HAD SUSPENDED DEPOSITS AND FILED SUIT TO CLAIM PROCEEDS
OF THE "RUTH." THESE TWO ISSUES MAY BRING TEXACO-GULF

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ISSUE TO A HEAD WITHIN NEXT FEW DAYS, I SAID. I ADDED

THAT THE TEXACO-GULF INVESTMENT PLAN PRESENTED MAY 5 HAD BEEN EFFECTIVELY IGNORED BY THE INTER-INSTITUTIONAL COMMITTEE.

3. POVEDA APPEARED AWARE OF GULF'S DEPOSIT SUSPENSION ALTHOUGH NOT OF THE FILING OF THE "RUTH" SUIT. HE SAID HE WAS INFORMED OF THE STATUS OF TEXACO-GULF'S INVESTMENT PROPOSALS, AND THAT IN VIEW OF THE LONG DELAY HE WAS NOW IN A POSITION TO INSIST ON AN ANSWER FROM THE INTER-INSTITUTIONAL COMMITTEE. POVEDA SAID THE SUPREME COUNCIL HAD ORDERED MINISTER OF NATURAL RESOURCES VARGAS TO REACH A SETTLEMENT WITH THE COMPANIES OF ALL OUTSTANDING PROBLEMS. REGARDING DECISION 285, HE SUGGESTED THAT CEPE'S INCLUSION IN THE TEXACO-GULF OFFTAKE AGREEMENT COULD BE SUBSTITUTED FOR THE RETROACTIVE APPLICATION OF DECISION 285. (SHIELDS HAD SUGGESTED THIS APPROACH IN A PREVIOUS MEETING--THE NET RESULT WOULD BE SEVERAL HUNDRED THOUSAND BARRELS DUE CEPE RATHER THAN THE TWO MILLION PLUS UNDER RETROACTIVE APPLICATION OF DECREE 285.) POVEDA STRESSED, HOWEVER, THAT FOR POLITICAL REASONS THE GOE COULD NOT REVOKE 285 WITHOUT SUCH A SUBSTITUTE POVEDA AGAIN REQUESTED THAT I TO ASK THE COMPANIES TO BE PATIENT, AND EXPRESSED HIS WILLINGNESS TO MEET WITH SHIELDS AND CRAWFORD. HE ALSO ASKED ME TO REPORT THE RESULTS OF T-G'S MEETING WITH VARGAS, SO AS TO HAVE CONFIRMATION THAT VARGAS WAS CARRYING OUT POVEDA'S ORDERS.

4. ROBERT SHIELDS, TEXACO VICE PRESIDENT FOR LATIN AMERICA, AND MAX CRAWFORD, TEXACO PRODUCTION MANAGER, CALLED ON AMBASSADOR JULY 19 TO REPORT DETAILS OF DAY'S MEETING WITH VARGAS (IN WHICH LOCAL GULF MANAGER JACK O'BRIEN ALSO PARTICIPATED). SHIELDS AND CRAWFORD SAID THEY HAD LATER TRIED TO ARRANGE MEETING WITH POVEDA BUT WERE UNSUCCESSFUL. SHIELDS REPORTED THAT THE MEETING WITH VARGAS HAD BEEN MOST UNSUCCESSFUL, ALTHOUGH SHIELDS TERMED VARGAS' ATTITUDE "CONTROLLED" AND EXPRESSED RELIEF OVER VARGAS' FAILURE TO ATTACK THE RECENT GULF ACTIONS. SHIELDS SAID VARGAS OPENED THE MEETING WITH A STATEMENT THAT THE COMPANIES WERE ALREADY MAKING TOO MUCH MONEY. VARGAS ALSO
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UNEQUIVOCALLY REAFFIRMED DECISION 285, BUT ALLOWED THAT THE OFFTAKE AGREEMENT COULD BE SUBSTITUTED FOR THE RETROACTIVE PORTION OF 285 IF CEPE WERE TO RECEIVE A FULL TWO

MILLION BARRELS. DECREE 285, HE REITERATED, WOULD BE IN EFFECT FROM NOW ON. SHIELDS SAID HE REPEATED TO VARGAS THE COMPANIES' OFT-STATED POSITION THAT 285 REPRESENTED UNLAWFUL CONFISCATION.

5. SHIELDS SPECULATED TO THE AMBASSADOR THAT AN ADDITIONAL DANGEROUS "INTERPRETATION" ACCOUNTED FOR VARGAS' DESIRE TO KEEP 285 ON THE BOOKS; VARGAS APPARENTLY HAS HINTED HE INTENDS TO HAVE THE COMPANIES PAY FOR THE RETROACTIVE DIFFERENCE BETWEEN ACTUAL PRODUCTION AND THE GOVERNMENT'S OFFICIAL (HYPOTHETICAL) PRODUCTION LEVEL OF 210,000 BPD, A DIFFERENCE VALUED AT APPROXIMATELY \$68 MILLION.

6. SHIELDS ALSO REPORTED THAT VARGAS BROUGHT UP SOME \$7 MILLION IN ROYALTIES THAT TEXACO OWES TO DEFENSE MINISTRY. SHIELDS EXPLAINED THAT THIS HAS COME ABOUT BECAUSE THE CENTRAL BANK HAD ERRONEOUSLY ALLOCATED A \$7 MILLION TEXACO-GULF DEPOSIT, AND THAT TEXACO-GULF WOULD MAKE NO ADDITIONAL PAYMENTS BUT RATHER EXPECTED THE ERROR TO BE RECTIFIED.

7. VARGAS DID SAY, HOWEVER, THAT HE MIGHT CONSIDER ALLOWING A 15 PER CENT ANNUAL RATE OF RETURN AND SLIGHTLY ACCELERATED AMOTRIZATION IN THE COMPANIES' CURRENT INVESTMENTS. HE ALSO SAID HE WAS "FLEXIBLE" AND THE COMPANIES SHOULD MAKE A COUNTER PROPOSAL. SHIELDS TOOK THIS AS A POSITIVE SIGN AND SAID THAT HE WOULD BE WILLING TO RETURN FOR FURTHER NEGOTIATIONS WITH VARGAS ON THESE TWO POINTS. SHIELDS WAS DOUBTFUL THAT GULF WOULD BE WILLING TO GO ALONG WITH FURTHER NEGOTIATIONS AND ACKNOWLEDGED THAT IT WOULD BE HIGHLY UNLIKELY, IF NOT IMPOSSIBLE, FOR TEXACO TO REMAIN IF GULF PROPERTIES WERE NATIONALIZED.

8. LOCAL GULF MANAGER JACK O'BRIEN CALLED ON ME JULY 20 TO GIVE HIS VERSION OF MEETING WITH VARGAS. O'BRIEN CALLED VARGAS' ECONOMIC PROPOSAL PATENTLY ABSURD AND COMMENTED THAT IT WOULD ENTAIL AN INCREASE IN GOVERNMENT
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TAKE ACCORDING TO GULF CALCULATIONS. O'BRIEN SAID, HOWEVER, HE WAS UNDER THE IMPRESSION THAT VARGAS MIGHT BE FLEXIBLE REGARDING THE ANNUAL RATE OF RETURN, THE COCA PAYMENT, AND AMORTIZATION IF RELIEF TO THE COMPANIES COULD BE DISGUISED. O'BRIEN MENTIONED THAT VARGAS HAD ALSO TOLD LOCAL TEXACO MANAGER MIKE MARTINEZ JULY 20 THAT NO INCREASE IN GOVERNMENT TAKE WAS PLANNED.

9. O'BRIEN ALSO HAD A DIFFERENT IMPRESSION THAN TEXACO REPS REGARDING THE CHANCES FOR REVISION OF DECISION 285 ALTHOUGH HE GRANTED THAT DISCUSSION ON THIS POINT WAS VAGUE. VARGAS DID CATEGORICALLY REAFFIRM DECISION 285 AS THE LAW OF THE LAND, BUT, ACCORDING TO O'BRIEN, VARGAS THOUGHT SEVERAL HUNDRED THOUSAND BARRELS WAS THE DIFFERENCE BETWEEN APPLICATION OF DECISION 285 AND HINTED THAT

THE OFFTAKE AGREEMENT COULD GOVERN FUTURE RELATIONS
BETWEEN CEPE AND TEXACO-GULF.

10. WHEN I ASKED WHAT GULF'S ATTITUDE WAS AT THIS POINT, O'BRIEN SAID THAT GULF WAS ANXIOUS TO MAKE A DEAL AND HAD NO DESIRE TO LEAVE ECUADOR. (O'BRIEN MENTIONED IN LATER CONVERSATION THAT HE HAD INFORMED SUBSECRETARY OF NATURAL RESOURCES PARODI AND MINISTER OF FINANCE CESAR ROBALINO JULY 15 THAT GULF HAD SUSPENDED DEPOSITS AND WOULD CONTINUE TO DO SO UNTIL ALL OUTSTANDING GRIEVANCES WERE WORKED OUT. O'BRIEN MENTIONED THAT ROBALINO SEEMED VERY SYMPATHETIC TO THE COMPANY'S SITUATION.)

11. COMMENT: THERE ARE OBVIOUSLY SOME DIFFERENCES IN THE TWO ACCOUNTS OF THE MEETING. ALTHOUGH O'BRIEN'S REPORT WAS CLEARER AS TO POSSIBLE AREAS FOR NEGOTIATION, MY IMPRESSION IS THAT VARGAS IS PLAYING GAMES WITH THE COUNCIL AND THE COMPANIES. I PLAN TO MEET WITH POVEDA TO REPORT DETAILS OF MEETING AND STRESS THAT GULF URGENTLY NEEDS SOME SOLUTION TO AVOID WITHDRAWAL FROM ECUADOR. (EMBASSY STILL BELIEVES THIS TO BE THE CASE DESPITE O'BRIEN'S SOMEWHAT MORE OPTIMISTIC COMMENTS ABOVE. SUCH AN APPROACH WILL ALSO HOPEFULLY ENCOURAGE POVEDA TO KEEP THE PRESSURE ON VARGAS TO REACH A SETTLEMENT.)
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